

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 IO-11 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 /117 W

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R 081659Z APR 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 9652

INFO AMEMBASSY BERN

USMISSION GENEVA

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL MARTINIQUE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 02 PARIS 10404

E.O. 11652: N/A

TAGS: PLAB, FR

SUBJECT: LIP ON THE BRINK OF BANKRUPTCY AGAIN

1. SUMMARY: LIP LOST 14 MILLION FRANCS IN 1975 AND IS NOW ON THE VERGE OF BANKRUPTCY. WORKERS ARE STAYING ON THE JOB BUT THEY REALIZE THAT THE COMPANY'S COMPETITIVE POSITION DEPENDS UPON TRIMMING PRODUCTION COSTS WHICH MEANS REDUCTION OF WORK FORCE. SWISS COMPANY EBAUCHE S.A. WHICH HOLDS 30 PERCENT OF LIP STOCK MAY ATTEMPT REORGANIZE LIP COMPANY. END SUMMARY.

2. THE LEGENDARY LIP AFFAIR IS BECOMING FRONT-PAGE NEWS AGAIN BECAUSE FOR THE THIRD TIME IN THE LAST THREE YEARS FRANCE'S LARGEST WATCH FACTORY IS FACING
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BANKRUPTCY. AS THE DEPARTMENT WILL RECALL, LIP,

WHICH PRODUCES 6 PERCENT OF FRANCE'S WATCHES, FACED BANKRUPTCY IN 1973 BECAUSE OF MISMANAGEMENT BY ITS ECCENTRIC BUT INVENTIVE OWNER--LIP. THE OCCUPATION OF THE PLANT BY ITS ONE THOUSAND WORKERS AT THE TIME, THE IMAGINATION WITH WHICH THEY CONDUCTED THEIR CAMPAIGN TO PREVENT THE CLOSURE OF THE PLANT, THE WIDE SUPPORT THE WORKERS RECEIVED FROM THE RADICAL UNIONS (ESPECIALLY CFDT) AND THE PARTIES OF THE LEFT, MADE LIP CAUSE CELEBRE SYMBOLIZING WORKER RESISTANCE TO LAYOFFS RESULTING FROM MANAGEMENT ERRORS OR ECONOMIC DOWNTURNS BECAUSE OF UNPREDICTABLE CONDITIONS OF A MARKET ECONOMY.

3. AT THE TIME THE WORKERS RAN A UNIQUE AND ABORTIVE EXPERIMENT IN SELF-MANAGEMENT BY CONTINUING TO ASSEMBLE WATCHES AND MARKETING THEM TO PAY THEIR WAGES. THIS AROUSED WIDE-SPREAD ENTHUSIASM AMONG LEFTIST GROUPS WHICH BLEW THE EXPERIMENT BEYOND PROPORTION WHILE CONSERVATIVE CIRCLES STRONGLY DISAPPROVED.

4. IN ORDER TO SHELVE THE POLITICALLY EMBARRASSING ISSUE POSED BY THE LIP WORKERS, THE GOVERNMENT OFFERED A 5 MILLION FRANC LOAN AND PERSUADED A CONSORTIUM OF LIP'S CREDITORS TO KEEP THE LIP FACTORY GOING. THE NEW DIRECTOR CLAUDE NEWSCHWANDER WHO WAS A MEMBER OF THE EXTREME LEFT-WING PARTY PSU MADE A GOOD START AND PRODUCED 400,000 WATCHES WITHIN A YEAR, 80,000 OF THEM SOLD IN THE EXPORT MARKET. BY LATE 1975, HOWEVER, THE COMPANY REALIZED THAT PRODUCTION COSTS EXCEEDED THE WHOLESALE PRICE OF THE WATCHES AND AS A RESULT THE COMPANY WAS LOSING MONEY AT THE RATE OF 1 MILLION FRANCS PER MONTH. LAST FEBRUARY NEWSCHWANDER WAS FORCED TO RESIGN AND WAS REPLACED BY P. SARGUEIL WHO, HOWEVER, SOON DISCOVERED THAT WITHOUT DRASTIC REDUCTION OF PRODUCTION COSTS, MAINLY IN THE FORM OF REDUCED PERSONNEL, THE LIP COMPANY COULD NOT COMPETE WITH CHEAP FOREIGN IMPORTS, NOTABLY JAPANESE AND AMERICAN QUARTZ WATCHES. AT THE END OF 1975 LIP WAS 14.5 MILLION FRANCS IN UNCLASSIFIED

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THE RED AND HAD AN UNSOLD STOCK WORTH 41.8 MILLION FRANCS.

5. LOCAL UNION LEADERS HAVE ORDERED THE WORKERS TO STAY ON THE JOB AND TO CONTINUE PRODUCING WATCHES. WHILE THEY MAKE STATEMENTS ABOUT SOLIDARITY AND RENEWED DETERMINATION TO KEEP THE COMPANY GOING,

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THEY REALIZE THAT ONLY A HARD-HEADED APPROACH TO
PRODUCTION COSTS CAN KEEP THE NAME LIP IN THE MARKET.

6. MEANTIME THE COMPANY WAS GIVEN A MONTH'S RESPITE
TO ALLOW THE STOCKHOLDERS TIME TO DECIDE WHAT TO
DO. THREE SOLUTIONS SEEM POSSIBLE: (A) RESTRUCTURE
THE COMPANY INTO A WORKERS COOPERATIVE, A SOLUTION,
HOWEVER, WHICH WAS REJECTED BY THE WORKERS IN 1974;
(B) ABSORB THE COMPANY INTO A LARGER COMPLEX IN THE
WATCH INDUSTRY; AND (C) ALLOW THE SWISS COMPANY
EBAUCHE S.A. WHICH HOLDS 30 PERCENT OF THE LIP STOCK
TO REORGANIZE THE COMPANY, INCLUDING LAYOFFS WITH
THE VIEW TO CREATING A UNIT OF 500,000 WATCHES A

YEAR INSTEAD OF THE PRESENT ONE MILLION.

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7. THE CFDT SECGEN EDMOND MAIRE HAS SOUGHT TO RAISE THE LIP QUESTION IN A BROADER CONTEXT INVOLVING THE ENTIRE WATCH INDUSTRY IN FRANCE BY ALLEGING THAT FOREIGN COMPETITION PRIMARILY IN THE FORM OF QUARTZ WATCHES IS THREATENING 30 PERCENT OF THE 15,000 EMPLOYEES IN THE WATCH INDUSTRY. HE CALLED FOR A NATIONAL CONFERENCE TO DECIDE THE COURSE FRANCE SHOULD TAKE TO MEET THIS FOREIGN COMPETITION.

8. COMMENT: THE EVOLUTION OF THE LIP AFFAIR HAS ONCE AGAIN DEMONSTRATED THAT NEITHER UNIONS NOR GOVERNMENTS CAN IGNORE WITH IMPUNITY THE REQUIREMENTS OF A MARKET ECONOMY IN DETERMINING PRODUCTION COSTS. JOB PROTECTION INEVITABLY MUST FACE THE TEST OF NATIONAL OR INTERNATIONAL COMPETITION.
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